Fall 2024

Seasons

Powering the Rural Economy:

New-Generation Renewable Fuels Spark Optimism

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Powering the Rural Economy: New-Generation Renewable Fuels Spark Optimism

Growing demand for next-generation renewable fuels could power new opportunities for farmers, landowners, and the ag economy. You may have heard how renewable diesel (RD) and sustainable aviation fuel (SAF) might offer some exciting opportunities. The growing demand for these fuels has the potential to drive up the consumption of corn and soybeans, two key ingredients in their production.

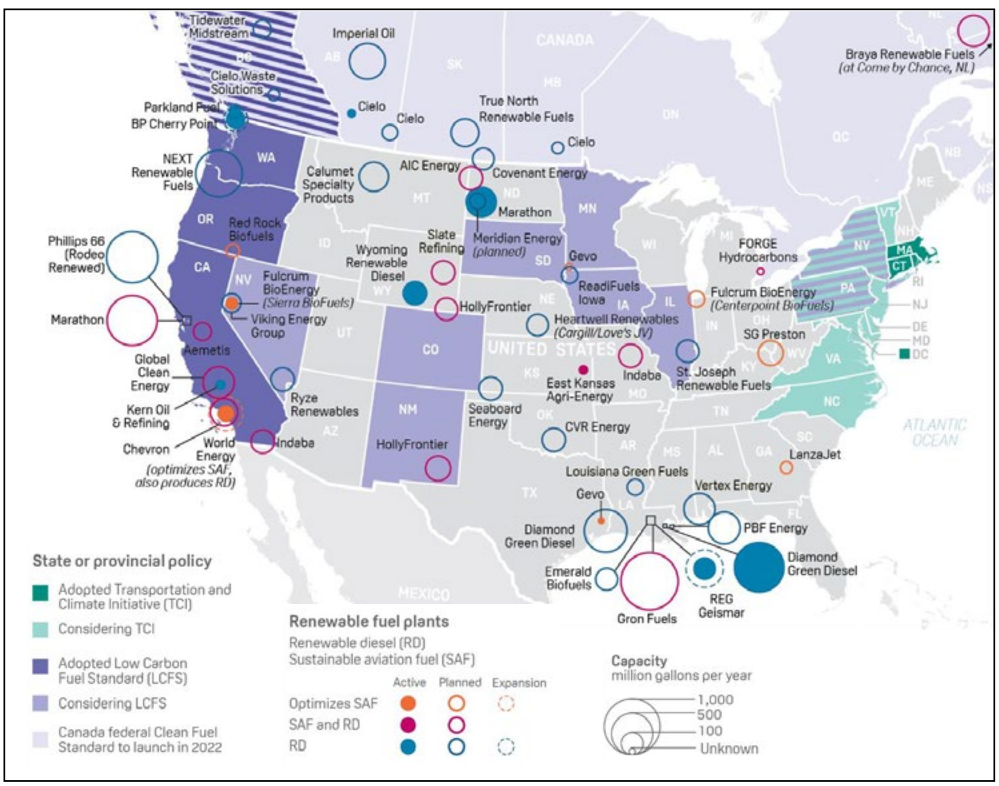
Here at Martin, Goodrich & Waddell, Inc. (MGW), we're being asked about these markets from time to time, and as always, we aim to keep landowners informed of opportunities on the horizon.

While a lot of this hinges on continued government support through policies and financial incentives, there are reasons to be cautiously optimistic. U.S. Agriculture Secretary Tom Vilsack conveyed a "get it done" attitude recently when he said he's confident a clean fuels tax credit program will be finalized by the end of January. This program would provide credits for production of lower-emission transportation fuels, including SAF.

Could these markets usher in a future era of strong land values in the Midwest? Here's what we know, starting with a little background:

- **Renewable diesel (RD):** RD is like regular diesel with added benefits. RD is a clean-burning liquid fuel made from renewable sources like vegetable oils (often soybean oil), animal fats, and used cooking greases. Chemically similar to petroleum diesel, RD is sometimes called "drop-in diesel," since it can be used without any modifications in trucks, tractors and heavy machinery. Studies show RD can reduce emissions by approximately 80%, compared to petroleum diesel.
- **Sustainable aviation fuel (SAF):** Designed to replace petroleum-based jet fuel, SAF can be made from renewable feedstocks like corn-based ethanol. SAF is defined as jet fuel with at least 50% fewer emissions than conventional jet fuel.

U.S. refiners jump on the renewable fuels bandwagon



Source: S&P Global Platts, EIA

Policies Create Tailwinds for Renewable Fuels

The evolution of ethanol offers valuable insights into the potential impact of RD and SAF. In the late 1980s, states began to pass laws requiring gasoline to contain some oxygenate to help the gasoline burn more completely. The goal? Reduce harmful tailpipe emissions.

To get the job done, the product of choice was methyl tertiary butyl ether (MTBE)—until it was found to be toxic. This paved the way for corn-based ethanol, which could be used in place of MTBE. Ethanol got a huge boost by 2005, when the government passed the Renewable Fuels Standard (RFS), requiring transportation fuel sold in the United States to contain a minimum volume of renewable fuels.

You may remember how the ethanol industry's growth fueled corn demand. Government incentives encouraged ethanol production plants to sprout across the Midwest. This also led to a land value uptick as grain prices and farm incomes increased.

Fast forward to today. Similar to ethanol's early years, incentives are available to producers of RD and SAF, making investment in these industries more attractive. States like California and Oregon have put in place Low Carbon Fuel Standards (LCFS), rewarding the production of fuels with lower emissions, driving major demand for RD.

SAF tax credits have been put forth by states such as Illinois and Minnesota, for fuels produced or used in the state. These tax credits are spurring activity in the marketplace. We're seeing that firsthand, as we've been working with companies seeking land to produce SAF in Illinois and sell their product to the large airline markets in Chicago.

Beyond state policies, the White House established the challenge of producing 3 billion gallons of SAF annually by 2030, which would be about 10% of the total domestic aviation fuel market. The ultimate goal is to make enough of this fuel to meet all national demand by 2050.

Farmers, Landowners Stand to Benefit

New RD and SAF plants could translate directly into increased demand for corn and soybeans. What does this mean for you?

- **Soybean demand may trend higher** Soybean oil is a critical component of RD. CoBank issued a report in September 2022 estimating that US soybean acreage would need to increase by 17.9 million acres in response to planned RD projects. To put that in context, consider that Illinois, the #1 state for soybean production, planted 10.35 million acres of soybeans in 2023, according to USDA. This projected RD demand increase could push soybean prices higher.
- **Cropping practices might change.** To help meet SAF's 50% emissions reduction requirement, farmers producing corn for ethanol-to-jet fuel would need to reduce the emissions associated with corn production. That could mean practicing no-till, planting cover crops, and utilizing manure applications.
- **Land values could increase.** If increased demand for grains materializes, it's likely we'll see stronger values for well-located farmland that can produce top corn and soybean yields.

Farmers are Cautiously Optimistic About Renewable Diesel, Sustainable Aviation Fuel

Kevin Green, Greenview Farms, DeWitt, Iowa

There's a lot of potential for renewable diesel and sustainable aviation fuel as the current trend to green energy continues. If a plant gets built in our area, it would immediately increase our prices. The caution is that these plants are being planned based on government subsidies. Long term, it will have to make economic sense without further subsidies. The full impact RD and SAF will have on our commodity prices is yet to be determined.

Norm Larson, who farms near Maple Park, Illinois

I've worked in the ag industry for more than 40 years, and I know it's important for ag to look for new opportunities for the products we raise. The potential opportunities that renewable diesel and sustainable aviation fuel offer sound great, but there are a lot of unknowns.

Can we grow enough to meet the potential demand? It will also take time for these renewable fuels markets to develop.

We'll be paying close attention to these opportunities and challenges with new markets like RD and SAF. Then we can sort out what will be best for our operation, especially as the next generation (my nephew) gets more involved in the business.

Local Spotlight: Marquis Plant in Hennepin, Illinois

Our region gets a front-row seat to this changing landscape. A planned expansion to the Marquis Industrial Complex in Hennepin, Illinois is a prime example. It's projected to host an 80-million-bushel-per-year soy crush facility, a 120-million-gallon-per-year SAF facility, and a renewable diesel plant. What's more, it has a prime location to capitalize on abundant feedstocks from surrounding farmland and existing industrial and transportation infrastructure.

In 2022, Marquis entered a partnership with LanzaJet, an Illinois-based sustainable fuels company, to create a 120-million-gallon-per-year corn ethanol-to-aviation fuel plant. The partnership is in the planning stages, assessing project feasibility as the government determines its long-term SAF standards.

"These updates and investments we're making to the Marquis Industrial Complex bring room for new low-carbon projects that provide opportunities for local jobs and market stability for area farmers," said Mark Marquis, CEO at Marquis.

Key Obstacles: Roadblocks on the Horizon

Transformative change can take a long time, and much has to go right. There are a number of curves on the path to reaching the final destination.

- **Certain farming practices can be impractical.** Farmers further north battle short growing seasons. Crops are often harvested as cold weather sets in, making it difficult to establish and grow cover crops. Also, not all farmers have access to manure as fertilizer.
- **Changes are needed at ethanol plants.** Ethanol producers would need to drive down emissions at their plants for corn-ethanol-to-jet fuel to reach the 50% emissions reduction benchmark. One way to do that is carbon sequestration – capturing carbon dioxide and storing it underground.
- **Government priorities could change.** Excessive debt at the federal level, and in some states, may require fiscal choices that decrease incentives for fuel production. Also, changing administrations in Washington D.C. inevitably bring about varying levels of support.
- **Not all plans come to fruition.** It's natural to wonder how many of the proposed RD and SAF plants will come online. "Historically, about one out of three of these types of proposed plants go through to completion," noted Dr. Chad Hart, an Iowa State University professor of economics.

As ideas and plans for the next generation of renewable fuels take shape, we'll stay close to the latest developments with a watchful eye.

Meet Carson Deppe, Real Estate Associate

A farm is more than land, crops and livestock. It's a heritage and a future, especially for young ag professionals like Carson Deppe. Martin, Goodrich & Waddell, Inc. (MGW) is pleased to welcome Carson to our team as a real estate associate.

"Joining MGW is a great opportunity to come back to my hometown and work with a well-respected company that has a long tradition of excellence in the land industry," says Carson, who grew up on a row crop and Angus cattle farm north of DeWitt, Iowa.

Carson earned his agricultural studies degree from Iowa State University in May 2024. During his senior year in college, he served as the manager of Iowa State's Al Christian Swine Teaching Farm in Ames. "This gave me a wide range of experiences leading a group of student employees as I managed an 85-head farrow-to-finish operation."

No two days are alike on the farm, and the same is true in real estate. "Being involved in agriculture my whole life made me want to continue working in this great industry," Carson says.

This mindset reflects some of the most valuable business advice Carson received when he was growing up. "Work hard and earn it. Nothing is given to you without putting in the time and effort to receive it."

The MGW team is highly skilled and understands how important land is to each of their clients, adds Carson, who enjoys working with his parents, Doug and Kim, on their farm and going to cattle shows with his brother, Kyle.

Top Producer: Mark Mommsen Earns National Award

Congratulations to Mark Mommsen, who has been recognized once again as an APEX Top 20 National Producer by the REALTORS® Land Institute (RLI). This award is given annually to the highest performing land brokers in the United States.

"I'm honored to receive this award, which is really a reflection of our company's high-quality personnel and commitment to excellence," Mark says. "For nearly 50 years, MGW has developed a team and a network that delivers industry-leading results for the people we serve."

The 2023 APEX Top 20 Award winners were ranked within the top 20 of nationwide applicants by qualifying production volume, starting at around $64 million. This honor is a part of the RLI APEX Production Awards Program, sponsored by The Land Report.

Mommsen was recognized by The Land Report at a special awards ceremony earlier this year during RLI's 2024 National Land Conference (NLC24) in Louisville, Kentucky. "We are proud of Mark and all our members who were recognized as part of our Top 20 National Producers," says RLI CEO Aubrie Kobernus. "They truly are the most accomplished professionals with the highest levels of expertise in land real estate."

Rooted in rural

Mark brings many years of experience in agricultural, recreational, and transitional real estate, as well as 1031 exchanges. A member of the RLI and National Auctioneers Association, Mark has handled several hundred land transactions across Iowa, Illinois, and Wisconsin. In addition, he's an Accredited Land Consultant (ALC), an Accredited Auctioneer of Real Estate (AARE), and has completed the Certified Auctioneers Institute (CAI) – designations held only by people who have achieved the highest level of education, experience and professionalism in the industry.

Growing a successful business in the rural Midwest is important to Mark, who grew up on a beef, swine, and grain farm in Clinton County, Iowa. He continues to work with his family on the operation. Mark earned his agricultural engineering degree from Iowa State University (ISU) and holds a master's degree in business administration from the University of Iowa.

Prior to joining MGW, Mark gained significant experience in the food industry, while holding a variety of leadership roles with General Mills, Inc., in California, Iowa, and Illinois. Mark and his wife, Kristin, are the proud parents of two daughters, Madison and Mackenzie.

Assessing Farm Finances from the Banker's View

Business guru Peter Drucker said that trying to predict the future is like driving down a country road at night with no lights while looking out the back window. Yet there's still value in forecasting as you plan and set goals, especially when you seek wisdom from knowledgeable people.

That's why we work closely with a variety of professionals who are well-versed in the ag economy. We recently caught up with Greg Gannon, a farmer and president and CEO of DeWitt Bank & Trust Co. in DeWitt, Iowa, and Garett Plumley, president and CEO of Farmers National Bank in Prophetstown, Illinois, to get their perspective on farm finances.

Greg Gannon, farmer and president and CEO of DeWitt Bank & Trust Co.

Garett Plumley, president and CEO of Farmers National Bank

What trends are you seeing with the general economy and interest rates?

Gannon: Many people I speak with in the agricultural sector, as well as outside that sphere, are nervous about the economy's ability to continue to expand. The dampening effect of the rapid increase in consumer prices, combined with the highest interest rates we've seen in 15+ years, are concerning. I was recently visiting with a 40-year-old farmer who mentioned these are the highest rates he has seen in his farming career. The interest expense line item on his profit-and-loss statement, which has previously been minimal, is now something he's noticing.

Plumley: Farmers are certainly concerned about both the ag economy and interest rates. The good news is that most customers have liquidity and equity to help absorb decreasing net income. While rates are higher than what we've seen in some time, they have been at this level before. However, there's a new generation of farmers who may have never managed through this rate environment.

What do you think interest rates will do in the next 12 months?

Gannon: I was in the minority with my interest rate view when the Federal Open Market Committee (FOMC) [the arm of the Federal Reserve that determines the direction of monetary policy] lowered its short-term interest rate target by 0.50% at its September meeting. My thinking was that a rate cut was not necessary. I'm not convinced the future rate cuts that have been signaled should occur, at least not to the magnitude being forecast by the financial markets.

My reasoning? I expect continued inflationary pressure as appropriated (but unspent) funds related to the American Rescue Plan, the so-called Inflation Reduction Act, CHIPS and Science Act, and Infrastructure Investment and Jobs Act, are expended. Also, with the soaring federal debt, the United States government will be competing with private businesses for credit, not to mention the burdensome cost of this debt. I believe the stimulative effect of government spending, combined with competition for credit and high interest expense burden, could drive interest rates higher across the yield curve. It's clear to me from the FOMC's post-meeting press conference and subsequent commentary by some Federal Reserve Bank presidents, however, that the Fed's policy focus has shifted from inflation to employment. The FOMC is walking a tightrope, to be sure, working to keep inflation at bay while preventing our economy from slipping into a recession.

Predicting interest rate movements is really a fool's game. Farmers and investors in agricultural assets shouldn't get caught in the game of guessing interest rates. Instead, assess the risk of rising interest costs in your operation, and seek borrowing terms that mitigate this risk.

Plumley: This past summer, I expected that rates would go down some, but not significantly during the next 12 months. However, the Fed dropped the benchmark overnight rate 50 basis points in September. Markets are expecting additional cuts this year, with more to follow in 2025, depending on the economic data moving forward.

Given that, rates may go down a little faster than originally expected, but for planning purposes, it may be better to not count our chickens before they hatch.

What advice are you giving your ag customers?

Gannon: In both good times and bad, our advice is the same. Maintain a liquid balance sheet. Working capital is the financial buffer that allows you to weather periods of financial stress. Working capital also is the dry powder that allows you to act quickly when opportunity presents itself.

Sound price risk management is our other mantra. Producers must first know their costs, and then make decisions regarding how much profit they want to make and how much loss they're willing to accept. Once these parameters are set, develop a risk-management plan with revenue insurance and a marketing plan.

Plumley: The bank and our customers have been through these cycles before. I read an article we sent to our farm customers during the last down cycle in 2016. It noted that challenging times make us stronger, and we learn from them. The current ag economy dictates that farmers do more with less, seek expert advice, utilize technology and data for improved decisions, and think strategically for the long term. This still sounds like a good plan.

The bottom line? Know your numbers, Plumley concluded. "Invest time and money in quality accounting, management advice, and tax preparation."

Top Yields, Top Dollar: Investing in Your Farmland for Challenging Times

Steve Diedrich
Accredited Farm Manager

Recent years have seen exciting changes in the agricultural landscape, and 2024 has brought its own set of challenges. With grain prices softening and interest rates staying higher, farmers and landowners are feeling the squeeze on farm income. In times like these, one truth stands firm: farms that reliably produce maximum yields will always be the most desirable and profitable.

Savvy landowners know that achieving consistently strong yields takes hard work and thoughtful investment. It's about more than just this season's crop – it's about shaping your land into an asset that pays off for years to come.

Our Experience: Proven Results on the Ground

We've seen firsthand how these practices transform farms. Our team of dedicated farm managers works closely with landowners to develop customized plans to improve farms and enhance their productivity and value. Here are some examples of projects we are working on in 2024:

- **Northern & Central Illinois:** Replacing old drainage tile that has reached the end of its useful life, to remove excess moisture and maximize yields. Landowners will see an immediate return on the tile investment in the form of increased rental income for years to come.
- **Eastern Iowa:** Installing a catch basin and drainage tile to collect incoming water from an under-the-road culvert and eliminate soil erosion. Topsoil will be preserved as water coming from adjacent fields will now be diverted underground and to a nearby creek.
- **Southern Wisconsin:** Leveling cropland acres to minimize ponding and wetness in lower-lying areas. Achieving a consistent slope across the farm will result in improved surface drainage and fewer losses from water-logged crops.

The Power of Smart Investment

In a challenging economic climate, remember that high-performing farmland will always command premium prices. If you would like to discuss how certain practices or investments could unlock the potential of your farmland now and into the future, our team of dedicated farm professionals would be happy to visit anytime.

Four Ways to Boost Your Land's Productivity

While the current economic climate may present challenges, there are proactive steps that can be taken to boost farmland's productivity and resilience. Here are four key ways landowners can improve the performance and value of their farmland:

1. Drainage Tile: The Foundation of Success
Excess moisture is a yield killer. Properly installed drainage tile systems remove standing water and excess subsurface moisture quickly, creating a root zone that promotes strong plant growth, even in wet years. Well-drained soils warm faster in the spring, allow operators to be timely with field operations, and make nutrients more available to crops.

2. Fertility Management: Feeding Your Future
Think of your soil like a bank account. You get higher returns by making regular deposits of fertilizer, and then keeping an eye on those deposits in case adjustments need to be made. As crops grow, they remove fertilizer from the soil, which needs to be replaced. By first understanding the amount of nutrients needing replaced, and then ensuring they are, the bank account stays in balance and crops thrive. Regular soil testing and targeted applications of fertilizer not only maximize yield this year, but they build long-term soil health and productivity potential.

3. Surface Water Control: Protecting Your Investment
Erosion steals topsoil, your most valuable resource. Exposed soil can become detached and displaced by wind or rain, and practices like terraces, grassed waterways, and buffer strips slow down runoff, keep nutrients in the field, and prevent gullies. These structures also make farming operations easier and protect your soil and land value for the long haul.

4. Precision Agriculture: Getting the Most from Every Acre Technology plays a huge role in modern farming. Precision agriculture tools like satellite assessment, grid soil sampling, variable-rate fertilizer application, and yield mapping can identify areas in a field that need special attention. Using these tools helps you make targeted, profitable investments to improve specific underperforming zones.

An interview with Mark Mommsen, President of Martin, Goodrich & Waddell, Inc.

More Americans Turn to Farmland for Long-Term Financial Stability, Not Cash Flow

Farmland buyers and sellers are adjusting their expectations in light of the softer outlook for farm profitability. This is putting the market in a state of transition. What could this mean for you? Mark Mommsen, president of Martin, Goodrich & Waddell, Inc., shares his insights.

Mark, what's your reaction to the Midwestern farmland market over the last year?

After a slight correction during summer 2023, land values snapped back to all-time highs into fall and year-end. Concerns about a dry summer were quickly erased when combine monitors recorded strong crop yields, and farmer optimism improved.

Strong buyer demand continued into 2024. At the same time, the amount of land available for sale was limited, as the record-strong land market of 2021 through 2023 acted as a vacuum, sweeping forward many landowners who were thinking of selling. This caused them to sell earlier to take advantage of record pricing.

These factors held land values steady into spring and summer of this year, despite the ongoing pressure from decreased farm profitability and continued higher interest rates.

How about this fall—who are the main buyers in the current market?

The changing economics of farming have caused some farmer-buyers to be more cautious. They are choosing to use their cash as operating capital to avoid incurring interest expense from operating loans at 8% or 9% interest.

Grain prices have come down substantially, and the outlook for farm profitability is soft. After reaching record highs in 2022, farm sector income is forecast to continue falling, according to USDA's Economic Research Service. After decreasing by 19.5% from 2022 to 2023, net farm income in 2024 is forecast to decrease another 4.4%.

Although farmers aren't as aggressive as in years past when farm profits were at record highs, they're still buying well-located farms that complement their operations. Being able to buy land in a certain neighborhood is often a scarce opportunity.

With farmers being less active in the market, investors are now finding opportunities to acquire quality farms at prices that meet their return expectations. These investors range from private individuals to institutions and investment funds that are often buying for holding periods from five years to several generations.

Could stable farmland values level off if land investment groups curb their buying?

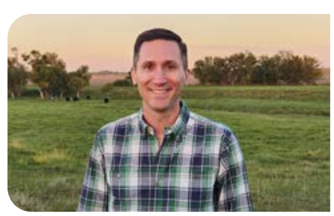
Many of today's investor-buyers share the same outlook—they view farmland as a source of long-term stability and diversification from other investments like stocks.

That sort of outlook promotes a nearly continual buying of land, just as one would dollar cost average in the stock market. Many of these investors are looking to ramp up their buying in the year to come, although they might adjust the amount they're willing to pay, based on what the market tells them.

There are many pockets of strength in the countryside where farms continue selling near record-high pricing, and there are some cases of farms trading at prices that are 10% to 15% lower than last year. The market is very situational and requires experienced insight—the wrong sale method or marketing plan can lead to an undesirable outcome.

What's the thought process of a buyer who pays $15,000 for land that has a net rent of around $375 per acre after property taxes? That's a 2.5% annual rate of return, and certificates of deposit are currently paying up to 5%.

Those sorts of numbers might make some scratch their heads, but land buyers are seeking more than immediate cash flow. Farmland has a long track record of being a stable investment that provides strong overall returns when capital appreciation is considered. It's not a paper asset that can be taken away or devalued overnight on an exchange. Plus, farmland importantly offers a hedge against inflation. When economic forces make commodity prices rise, farms generate more income, which pushes up the value of the land itself. In a world of 5% risk-free returns on fixed income, farmers and investors still bank on farmland!



Mark

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